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Hikes in insurance costs swallow dealers' profits

By Tim O'Malley

NATIONAL REPORT — Charlie White still regrets having to tell his 11 employees last spring that skyrocketing premiums had forced him to cancel the company's health insurance coverage.

"We had to give it up," said White, manager of Parker's True Value hardware store in Merced, Calif., which was hit with a 25 percent increase on monthly premiums of $50 to $100 per employee for basic coverage. "The rates were just out of sight."

Prets Lumber in Galveston, Texas, has been shopping around for an insurance plan for its 13 employees. But "I can't even come near them," said Richard Prets, citing a $211 monthly tab, with $500 deductible, for a three-member family plan.

Parker and Prets aren't alone in their frustration. Independent home improvement dealers throughout the nation are finding insurance companies far more restrictive when it comes to underwriting corporate policies, and far more expensive in providing coverage.

Rising health insurance rates have become a major dilemma for American companies, particularly those with fewer than 25 employees. Smaller companies, lacking a broad pool for economies of scale, may see their premiums rise dramatically with only a few large-dollar claims.

Larger companies aren't immune, either. Lowe's, the North Wilkesboro, N.C., chain with 13,000 employees, is absorbing a 10 percent rate increase from Provident Life Insurance, which processes claims for the retailer.

Lowe's has a self-funded program, meaning it pays claims from its own revenues. Those revenues will be drained by 21 percent more than last year because of higher health care costs, said vp-human resources Jim Parks. He said this cost will either be passed on to employees, who now pay half their own premiums, or offset by greater restrictions on the plan.

"Sometimes you get the feeling that health care is out of control," said Parks.

25% increases the norm

On average, health insurance premiums are up 20-30 percent this year, from a 15-25 percent hike in 1988. Surveys by insurance trade organizations indicate that growing health care costs and malpractice insurance are primarily responsible.

With no end in sight, firms are either canceling policies, asking employees to shoulder

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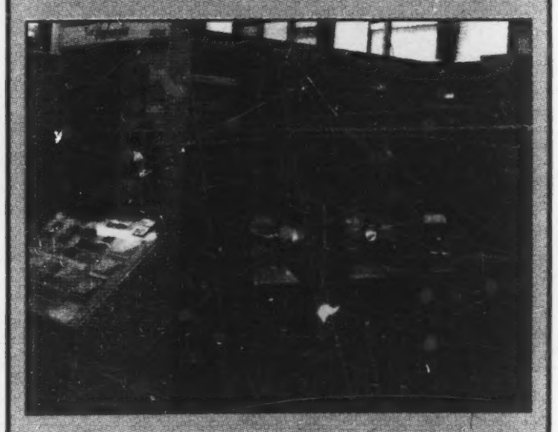
PERSPECTIVES

Women strive for equality in the industry 17

BUYING & SELLING



Dealers fine tune window treatment offering 33

Retailers wonder if new radon findings will produce homeowner run on test kits

By Richard Schenkel
Special to NHCN

NATIONAL REPORT — On the 18th of this month, the Environmental Protection Agency in Washington was scheduled to disclose that homes in eight more states were found to have unacceptably high radon gas levels.

One of those states is Georgia. And in anticipation of that news, the Atlanta-based Home Depot worked with local media and health groups and a leading radon kit supplier to launch a public service blitz aimed at alerting local residents of health dangers.

A few weeks earlier, the Department of Environmental Protection in New Jersey identified radon as the state's "most serious environmental health threat." It cited "dangerous" levels of radon gas that were found in one-third of all homes in the Garden State, and warned that three out of every 1,000 residents can expect to contract radon-related lung cancer.

However, while the EPA got over 400 calls in four hours about the report, that anxiety did not spill over into retail sales of radon-testing kits.

"Demand has been increasing in the last three weeks, but it always does in the wintertime because people stay indoors more," said a spokesperson for Rickel Home Centers, the 52-unit chain in South Plainfield, N.J.

He added that he was about to make his first purchase of the testing kits in over six months, buying both the 3-day kits that retail for $9.99 and 90-day kits selling for $19.99.

Erratic kit sales

Radon testing kits became home improvement centers' latest hot item after the EPA reported in September 1988 that nearly one in three houses sampled in seven states had radon gas readings equal to or greater than the accepted level of 4 picocuries per liter of air.

This month, EPA will again raise the specter of risk when, according to sources familiar with its latest study, it

(Continued on page 4)

Warehouses to propel Hechinger in 1990

By Elizabeth Brent

VIRGINIA BEACH, Va. — Home Quarters Warehouse's new unit in Norwood, Mass., will double as a district office for training and rebuying, and serve as a "host" store for other HQs in the Boston area when it opens in early 1990.

The warehouse format will also be the engine that powers the 1990 expansion of Hechinger, HQ's parent company.

The Landover, Md.-based Hechinger said early this month that it will more than triple the size of its warehouse division during the next three years with the addition of 30 units by 1992.

Next year 14 of its 18 new stores will be HQ warehouses, compared with only four out of the 18 new stores that Hechinger will have opened this year.

"We have a powerful growth vehicle in Home Quarters," said John Hechinger Jr., president of Hechinger, in a prepared statement. "In fact, we believe HQ will prove to be the fastest-growing warehouse operation in the home center industry."

One store serves many

Frank Doczi, HQ's president and ceo, told *NHCN* that the host store concept, where

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Industry helps Southeast rebuild after Hugo See page 49

EDITORIAL

Stereotypes obscure the true customer

The issues facing women in the industry are the subject of our Perspectives cover story in this issue.

Someday, the sooner the better, this won't be a story. But today, the presence of women in influential positions is a recent phenomenon, and residual myths that remain inhibit their growth and, therefore, everyone else's.

Ken Schept
NHCN Editor

One of the consequences of this situation is a chronic misperception of customers, both men and women, which can be costly.

MYTH: "A woman's place is in the home decor department."

Entire merchandising strategies have been built on the proposition that fashion is for women only.

REALITY: An interest in color and design is not specific to one sex. Neither is it feminine nor masculine to like working with tools.

CONSEQUENCES: Basing a strategy on old stereotypes is a good way to fail. You can't sell the customer if you don't see the customer.

I remember being in a class of neophyte retail journalists when a veteran editor expanded on differences between male and female shoppers.

"A female shopper likes to shop," he said. "She'll go from store to store and compare prices and merchandise. A guy doesn't want to be bothered. He wants a blue oxford button down and he wants to get out of there as quickly as possible."

I found myself staring at the way this mentor was dressed and thinking, hostilely, that he must have picked up most of his expertise at K mart.

The man knew a lot more than we younger know-it-alls. But the fact remains—he was stuck in time. And the place he was stuck is still crowded with a lot of experts from this industry.

EXAMPLE: How many times have you heard executives say they want their stores to appeal to female shoppers?

"We're going to create an attractive shopping environment," they say.

Clean stores. That's always the answer, as if adults shopping act like some believe kids behave in a playground.

People want honest prices and value and they'd like to find it in a store where they don't have to have their clothes dry-cleaned after shopping. This assertion applies equally to men and women.

EXAMPLE: How many times have you heard an executive describe a home improvement need—roof repair, for example—as a "honey-do" project?

Come Sunday afternoon, in other words, the wife orders the husband out to the home center.

Maybe it's raining. The roof is leaking. But without his wife's prodding, the husband will risk drowning rather than move off the couch while the Bears are threatening from inside the five.

This is a valid view of the world if Blondie and Dagwood are its only customers. Yet it's still a prevalent view.

These misperceptions are unfortunate. Since they caricature both men and women, they diminish both. The chances for success of sales efforts based on these views are limited by their inaccuracy. More women working in the industry should help correct these distortions.

—Ken Schept

COMMENTARY

The 'why' behind inequality unanswered

In between semesters of college and graduate school, I worked as a keypunch operator for Johnson & Johnson and Supermarkets General in New Jersey and John Hancock Life Insurance in Boston. At each job, I was the only male employee in my section.

John Caulfield
NHCN Executive Editor

It was always a little strange at first, coming into a room full of people who viewed me, no doubt, with a mixture of curiosity, bewilderment, suspicion or without any interest at all. Over those summer stints, there were some women with whom I never exchanged a single word.

Many of them were friendly, though, and I even dated a few. But my most vivid recollection about the experience was how unremarkable it all was. Without any vested interest in long-range career opportunities, I came to work, did my job and went home. Two were night shifts, so occasionally I'd go out after work for a drink or something to eat with a few of the women, but that was unusual.

I interacted. I wasn't shut out. But I was alone.

Many of the women quoted in this week's Perspectives cover story on their progress in the home improvement industry say they, too, remain isolated. The larger question is why?

The relationship between men and women in the workplace is a little like electricity—it works, but very few people understand how. And like electricity, sparks occasionally fly when the system malfunctions.

That working women still feel they are second-class citizens, though, is stating the obvious, and merely reflects the distance that separates the two genders throughout society in general.

What's frustrating is that serious discussion of this situation—as it pertains to sexuality, equal opportunity, careerism—and possible solutions is relegated to 15-minute segments on Donahue or Oprah, or reduced to exercises in point-scoring among various special interest groups. It's very tiresome and serves little purpose to hear some women promote their own cause by stereotyping men with whom they work as deficient or reactionary, which is about the level of discourse one is exposed to these days.

Conversely, the identification of women by men as being suited for only some jobs and not others simply perpetuates a myth that not only has little basis in fact, but whose evidence to the contrary is on full display in every walk of life every day.

The barriers blocking advancement for women do appear to be breaking down, as the work force changes and women are called upon to assume far greater responsibilities than before. In the home improvement industry, more women now hold high-level positions in nearly all disciplines.

However, creeping into all this is the notion that "equality" negates differences; that a level playing field at work is achievable only when there's a kind of gender blindness practiced.

But women *are* different from men, something that neither rewritten statutes nor corporate policies can alter. It behooves the industry, then, to tailor jobs to take advantage of those differences women say they can bring to a company, instead of trying to drain every drop of gender from a job description.

It's not bias when an employer recognizes a capable women as an individual, too.

—John Caulfield

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Employees pay more for coverage

(Continued from page 1)

more of the cost, or seeking alternatives to conventional arrangements.

One alternative is so-called multiple-employer trusts, in which several businesses buy insurance as a block and benefit from volume discounts. Under some arrangements, premiums are assigned on a sliding scale, based on the sales performance of an individual company.

One such trust, Insurance Management Services, a former subsidiary of the building materials buying group BMA, buys insurance for 50 lumber/home improvement retailers with Travelers Insurance Co. On average, said IMS benefits director Harold Leatherman, those businesses are paying rates 35 percent higher than last year, although some who had poor sales years were charged less.

Donald White, media relations manager for the Health Insurance Association of America (HIAA), a trade group, warns that trusts can be risky. "Some pay claims out of a pool of premiums, without any backing from insurance companies. The trust can go bankrupt," he said.

Another way dealers are lowering costs is by cutting coverage. Ernst Home & Nursery, the Seattle-based, 73-store chain, this year began covering 80 percent of hospitalization costs instead of the full tab. This one step, said vp-human resources Susan McNab, will save the company tens of thousands of dollars.

Ernst's self-funded program is paying out 30 percent more this year due to increased health costs. Employees pay $8 for individual coverage and $25 for family coverage each month. McNab said rather than increase those charges, Ernst decided to institute cost-saving measures. One new policy requires a second opinion before surgeries are performed.

If health care costs continue to rise, McNab said employees will be asked to contribute more, perhaps as early as next year. "We spend millions each year on this one issue [health care]," she said.

The self-funding option was also selected recently by the 30-store T. H. Rogers Lumber. The Oklahoma City-based chain canceled its 62-year-old policy with Equitable after the underwriter asked for a 39 percent rate increase.

Said T. H. Rogers general manager Bill Payne, "We decided it would be cheaper to fund it on our own, administratively and all." He said the company saved $100,000 in the process.

Three options or last resort?

Companies unable to bear the expense of self funding have three options: health maintenance organizations (HMOs), preferred provider organizations (PPOs) or traditional indemnity plans. The latter, under which a contract is entered with an insurer, can be either managed or unmanaged fee-for-service types.

White of HIAA said managed plans, where the insured is required to get approval from the underwriter for non-emergency procedures, are gaining in popularity with employers because they invariably result in lower fees. About 43 percent of all health insurance is now managed; 28 percent is unmanaged and 29 percent are either HMOs or PPOs.

HMOs and PPOs, also gaining in popularity, charge employers a flat rate regardless of how much health care is provided. These keep costs down by assigning the insured to doctors who are part of a network. And, said White, "they are very successful at keeping people out of the hospital. That's the big-ticket item when it comes to costs."

Federal law requires employers with more than 25 workers to offer an HMO as an option. But for some businesses, like Everglades Lumber, with two stores in Miami, the HMO is a last resort

Everglades' HMO, which costs each of its 300 employees $50 a month, was settled on after two prospective insurers refused to write the company a policy, said owner Osvaldo Vento, Jr. He said they declined for the same reason the company's original insurer refused—too many claims were being filed.

Some owners are using cash remuneration as a substitute for a less popular plan, or no plan at all.

When it canceled its policy with Prudential, for example, Parker's, the California dealer, decided to pass on the existing value of each employee's premium to the individual, to help defray whatever insurance they may obtain on their own.

Another owner, faced with a 31 percent premium increase, is using money to lure employees off his indemnity plan. Stephen Lumb, owner of George W. Pratt & Sons, a three-store chain based in Highland, N.Y., promises half a monthly premium to any employee who takes coverage from some outside plan, including a spouse's. So far, only four of his 55 employees have accepted the offer.

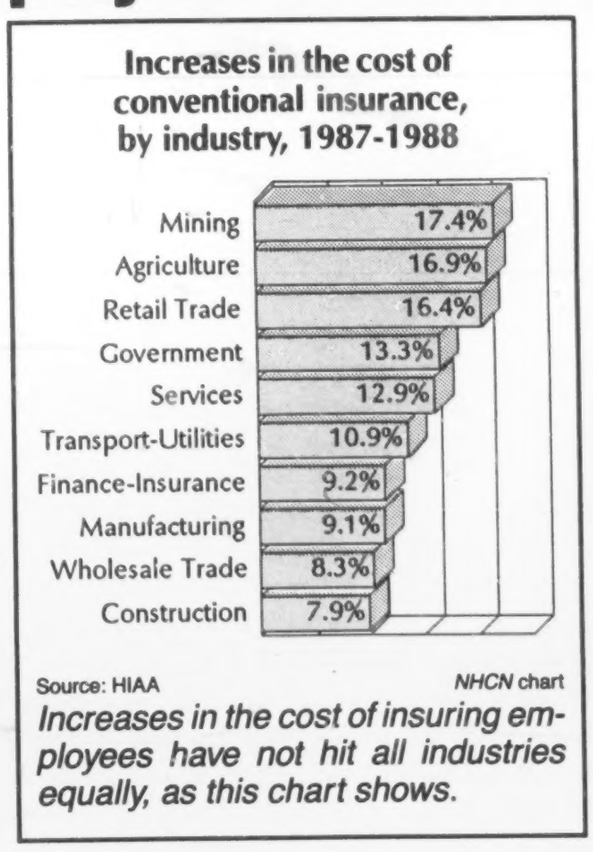
"There's a perception problem," said Lumb. "People think two plans are better than one."

Competitive costs foreseen

White of HIAA offers what may be a more lasting alternative. He says managed plans, as they gain in popularity, will encourage competitive pricing among health practitioners, thus controlling costs.

As with car repairs or groceries, said White, people will slowly be encouraged to question the fees of a doctor or a procedure, and compare those prices with others.

"Managed plans are an attempt to add more discipline to the system," he said. "Right now things are in sad shape and getting worse."



Increases in the cost of insuring employees have not hit all industries equally, as this chart shows.

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AHMA opens 2nd Cologne show pavilion

By an NHCN staff editor

NEW YORK — The American Hardware Manufacturers Association (AHMA) will operate a second exhibitor pavilion at the International Hardware Fair, which is scheduled to take place March 4-7, 1990 in Cologne.

It will be the ninth year of Cologne fair participation by the AHMA, whose pavilion program provides small- and medium-sized U.S. manufacturers with economical, turnkey entry to the largest international trade show.

Last year 50 U.S. suppliers participated in the AHMA program, but others were turned away because of a space shortage. The new pavilion solves that problem.

Also, because the Cologne show is organized according to product category, the added AHMA pavilion increases the possibility that participating manufacturers will be positioned adjacent to related merchandise.

Exhibition space at Cologne is divided into three merchandise classifications: tools, locks and fittings, and building and DIY supplies, which together occupy 1.6 million square feet.

The AHMA will again have a pavilion in the Tool Center; its new pavilion will be in the Locks and Fittings Center.

A total of 65 U.S. firms are expected to participate in the AHMA Cologne program next year. Another 40 U.S. manufacturers will attend the show on their own, making the U.S. number four in the number of companies exhibiting at the show, after Germany, Italy and France.

Plans for the new pavilion were announced earlier this month by Hans Wilke, executive director of Koln Messe, the Cologne exhibition center, during a U.S. tour promoting the Hardware Fair.

The AHMA is exploring the possibility of introducing pavilion programs at other international shows to support exporting efforts of members.

Shows being considered for 1990 include the Japan DIY Show in September, the January International Hardware and Housewares Show in Birmingham, England, and the Hardware/Housewares Show of the Caribbean in Puerto Rico, which takes place in February.

AHMA officials said that tight deadlines makes it less likely that the associations will have pavilions in England and Puerto Rico next year.

Wyeth goes into Chap. 7, forced to liquidate assets

By an NHCN staff editor

KANSAS CITY, Mo. — A federal bankruptcy judge has converted the reorganization plan of the wholesaler Wyeth Co. and its affiliates from Chapter 11 protection to a Chapter 7 liquidation.

Because Wyeth failed to find a white-knight buyer by the end of August, Chief Bankruptcy Judge Frank W. Koger in Kansas City, Mo., assigned a trustee to liquidate the St. Joseph, Mo., company's assets.

In early October, Max Wyeth, president of the firm, said a feasibility study showed the company could return as an entity owned by its employees if financing were secured. Until that time, Wyeth said: "The court is allowing us to operate in a mode to sell inventory in a normal way."

The trustee, Bruce Strauss of Kansas City, said the sale of inventory was being accomplished through a Wyeth-owned retail store in St. Joseph.

Weyerhaeuser to sell plant

By an NHCN staff editor

TACOMA, Wash. — Citing a decline in demand for engineered lumber from the commercial sector, Weyerhaeuser will sell its three-year-old wood I-beam plant in Albuquerque, N.M. A Weyerhaeuser spokesperson said the company will still supply engineered products under a private-label agreement with another manufacturer.

If the plant isn't sold, the forest products company plans to close it on Dec. 1.

Karen Sullivan, a spokeswoman for Weyerhaeuser's Engineered Products Division, added that the Albuquerque plant was built to service the commercial building market in Arizona and New Mexico. When Weyerhaeuser changed its product line emphasis to residential 2½ years ago, it was determined the mill could not downsize its product economically.

She said Weyerhaeuser still makes laminated lumber beams but its laminated veneer lumber (LVL) and engineered wood joists and beams are made by the Microlam Co.

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NuWay unloads unprofitable properties

(Continued from page 2)

cost). Last year it added "Gold Service" deliveries to two-thirds of the areas it serves, either sent by common carrier or UPS, said Cohen, the company's president.

In May, Cohen identified Baltimore, Omaha and Miami as the "Gold Service" markets (*NHCN*, May 22). A month earlier, NuWay announced it would close its 20,000-square-foot distribution center in Denver in favor of a larger site in Omaha.

Yet competitors in all markets speculated NuWay's cash-and-carry business was so geared to being a fill-in or secondary supplier, in an area dominated by long-time program and cooperative wholesalers, that NuWay could no longer justify its presence in those markets.

With its DC closings, NuWay now operates facilities in Alexandria, Va.; Bellmawr and Moonachie, N.J.; West Coastville, Pa.; Utica, Buffalo and Schenectady, N.Y.; Miami; Atlanta and Baltimore.

It could not be determined out of which DC NuWay is servicing Midwestern dealers in such states as Minnesota, North and South Dakota and Iowa, where it has been licensed to franchise the Pro Hardware name.

Gary Cosgrave, Pro's chairman and ceo, said there were no Pro accounts signed in those areas since NuWay received the franchise last December.

Hechinger to triple warehouse division

(Continued from page 1)

merchandise is broken from bulk and distributed to other stores, is part of the chain's new strategy to propel its growth in large metropolitan areas.

Aside from the 15 stores it has planned for the Boston area, HQ will open three units in the new market of Birmingham, Ala., and also in Montgomery, Ala. Other targeted markets will be "primarily" in southeast and central U.S.

Norwood not only marks the onslaught of Hechinger's expansion into New England, but also a shift in its expansion focus, as Hechinger gives its warehouse division the task of penetrating new markets and bolstering profits.

In order to sustain its growth plans this year and next, Home Quarters is seeking sites in shopping centers, on the edge of malls and in freestanding locations. Its warehouse stores range from 85,000 to 100,000 square feet, depending on the size of the market, with an additional 30,000 square feet of outdoor space.

Although HQ opened in two converted Bradlees units this year in Norfolk, Va., and Durham, N.C., none of the new 30 units will be Bradlees conversions, according to Doczi. The Bradlees units will be used primarily as new Hechinger locations.

As Home Quarters steps up its expansion drive, it will add a new head of training and organize training sessions in its district offices.

The HQ stores slated to open in 1990 will "have new merchandising and product assortments, with more emphasis on project selling," said Doczi, who declined to be more specific about these changes right now.

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